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FOR TREASURY A/S PATRICK O'BRIEN FROM THE CHARGE

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TAGS: EFIN ETRD PTER OTRA MU
SUBJECT: SCENESETTER: VISIT OF TREASURY A/S PATRICK O'BRIEN

REF: OMAN 2007 INCSR SUBMISSION

Classified By: Charge d'Affaires, ad interim, reasons 1.5 b and d

¶1. (C) Greetings and welcome to Oman. My team and I look forward to your arrival on December 18 to discuss with government and private sector officials Oman's current anti-money laundering and counter-terrorist financing efforts. Your visit will provide an excellent opportunity to press for Oman's establishment of a formal Financial Intelligence Unit (FIU), a prerequisite for Egmont Group membership. The meeting will also provide an opportunity to discuss areas of technical assistance that the USG may be able to provide to the Omani government and press for Oman's accession to the UN International Convention for the Suppression of the Financing of Terrorism. For your visit, we are working to confirm meetings with the Executive President of the Central Bank of Oman, the Vice President of the Central Bank for Banking Controls and Legal Affairs, the Chief of the International Organizations Office of the Ministry of Foreign Affairs, the Chief of the Royal Oman Police's (ROP) Economic Crimes Unit, the CEO of the National Bank of Oman, and the Executive President of ExlSpaceStrategy, a local consulting firm charged with implementing the Oman Anti-Money Laundering Program (OPFAM). We will also arrange for an interview with a leading Omani daily publication.

Economic Overview

¶2. (U) Oman's economy is based primarily on petroleum and natural gas, which are expected to account for 81% of the government's revenue in calendar year 2006. Oman's proven recoverable oil reserves are estimated at 4.8 billion barrels. The main producer of oil is the government majority-owned Petroleum Development Oman (PDO, in partnership with Royal Dutch Shell), which controls 90 percent of reserves and the lion's share of total production. U.S.-based Occidental Petroleum is the second largest producer in Oman, and has committed to investing over $3 billion over the next several years in enhanced oil recovery efforts in mature fields.

¶3. (U) High oil prices in 2005 led to a record Omani budget surplus of $3.8 billion and blistering GDP growth of 21.7 percent, despite the steady decline in oil production since ¶2001. The 2006 budget, announced on January 1, projects significant government spending on industrial and tourism projects, though with the continuation of high oil prices,

the government currently is running a ten-month surplus of $3.4 billion. Under the government's Seventh Five-Year Plan, to cover 2006-2010, the average investment rate over the five-year period is estimated to be 24 percent of GDP. Thanks to windfall oil prices and strong tourism growth, Oman's economy is currently running at a brisk pace.

¶4. (U) Oman actively seeks private foreign investors, especially in the industrial, information technology, tourism, and higher education fields. The largest single industrial investment target is the port city of Sohar, near the UAE border. It has witnessed over $12 billion in government investment alone in the financing of several industrial projects, including a petrochemical plant (with Dow Chemical), a steel rolling mill, a fertilizer plant, and an aluminum smelter (being built by Bechtel). Investors transferring technology and providing employment and training for Omanis are particularly welcome. The permitted level of foreign ownership in privatization projects is 70 percent, with up to 100 percent in certain cases. The government has proceeded with several major privatization projects, including power generation projects in Salalah, Barka, Rusayl, and the Sharqiyah region.

¶5. (U) A linchpin of the government's diversification efforts is the liberalization of its trade relations with key partners. The U.S. and Oman recently completed the ratification process for the U.S.-Oman Free Trade Agreement. With this process complete, USTR and the Embassy are engaged with relevant Omani government agencies in ensuring that all pertinent regulations are FTA-compliant in order for the Agreement to take effect. The government has amended its labor codes, is finalizing updates to its corruption and investment codes, and is working with USTR and the World Intellectual Property Organization (WIPO) to revise its intellectual property regulations. The USG is also working with the Omani government on transparency and telecommunications regulations and on technical assistance programs for labor and customs administration. The Embassy is collaborating with the government on FTA promotional activities, such as a recently held FTA Awareness Conference.

AML Overview

¶6. (SBU) Oman is not a regional or offshore financial center and, accordingly, does not have a significant money laundering problem. Its small banking sector is closely supervised by the CBO, which has the authority to suspend or reorganize a bank's operations. Oman has a total of 16 licensed banks in operation, including five local commercial banks, three local specialized banks, and eight foreign incorporated banks (including Bank Melli and Bank Saderat).

¶7. (U) The government has issued a series of decrees to combat money laundering. In March 2002, the Sultan promulgated Royal Decree 34/2002, "The Law of Money Laundering," which strengthened existing regulations by detailing bank responsibilities, widening the definition of money laundering to include funds obtained through any criminal means, and providing for the seizure of assets and other penalties. In July 2004, the Sultan promulgated Royal Decree 72/2004, which provided for implementing regulations, including those that require financial institutions to obtain information on their customers, keep electronic data on e-transactions, and identify and investigate suspicious transactions. The decree also authorized the attorney general to freeze disputed assets, protected classified information obtained in investigations, recommended the provision of training courses on best practices, and called for closer collaboration with international bodies. Through its affiliation with the Gulf Cooperation Council (GCC), Oman is a member of MENA-FATF, and sent representatives to attend its most recent meeting in Al Ain. Oman signed the UN Convention against Transnational Organized Crime in April 2005, but has not yet signed the UN International Convention for the Suppression of the Financing of Terrorism.

OPFAM: The Newest Initiative

¶8. (U) In August 2006, the CBO unveiled the Oman Program for Anti-Money Laundering (OPFAM), its newest initiative to promote greater cohesion among Omani policy makers, regulators, law enforcement agencies, and financial institutions. OPFAM will consist of a series of specialized training workshops on the prevention, detection, investigation, and prosecution of money laundering in preparation for Financial Action Task Force (FATF) and IMF evaluations. Through OPFAM, the government hopes to promote information exchanges among relevant actors, standardize indicators used to report suspicious transactions, and develop common guidelines to address anti-money laundering challenges. Participation in OPFAM is mandatory for all institutions covered by Oman's 2002 anti-money laundering law.

FIU Still Pending

¶9. (S/NF) While OPFAM will strengthen the already close investigative relationship that the economic crimes unit of the ROP shares with the CBO, commercial bank compliance officers, and the public prosecutor's office, the initiative does not formally establish a Financial Intelligence Unit (FIU). Internal disconnect among the relevant actors as to where to place such a unit has slowed progress toward creating a FIU. During a March Treasury FINCEN visit to Muscat, an Internal Security Services (ISS) official stated that the political will and the desire to establish a FIU were there, but no decision had been made on where to locate it. He continued that the ISS viewed the CBO as the most logical place for the FIU, adding that the ISS and the ROP are both consumers of FIU information. He noted that the ISS did not favor the establishment of an FIU within the ROP, fearing that the ROP will not share FIU information with the ISS.

¶10. (C) The CBO, in turn, noted that the main partnership in detecting incidences of money laundering, as discussed in the 2002 anti-money laundering law, is between the private banks and the ROP and CBO. This relationship is part of a broader national committee on money laundering, which also include representatives from the Ministries of National Economy, Justice, and Commerce and Industry as well as the Capital Market Authority and Public Prosecution. The CBO believes that a quasi-FIU is already in place via the CBO's Bank Credit and Statistics Bureau, which collaborates with the national committee. The CBO further plans to institute a monitoring system to flag suspicious incoming, outgoing, and internal transactions.

¶11. (C) Until a formal FIU is established, the CBO Executive President has expressed confidence that the ROP's economic crimes unit would continue to play a similar role, and that the government would continue to faithfully abide by all FATF 40 9 recommendations, as well as act on recommendations by the UN 1267 Sanctions Committee to freeze assets of those associated with Usama bin Laden, the Taliban, and/or al-Qaida. The CBO Executive President further noted that the bank's reputation for closely monitoring the financial system would continue to deter money laundering activities in Oman. While several investigations have taken place, none have uncovered instances of money laundering.

¶12. (SBU) Islamic banking is not permitted in Oman, and the CBO has no plans on permitting it in the near-term. The CBO Executive President, in answering a query at a September 2006 Economist Business Roundtable event, alluded to such banks as using the "Islamic" name as a marketing tool. He remarked, "At the end of the day, Islamic banks face the same expenses for borrowing as other financial services."

Relations with Iran

¶13. (C) Oman's perspective on the threat posed by Iran often is different than that of the USG and even its GCC partners. While neither the political nor military leadership wants to describe Iran as a threat (they are quick to remind us that "Iran is not an enemy"), Omani officials have indicated that they are very concerned with Iran's nuclear ambitions. They realize, for example, that a nuclear-capable Iran would likely spur Saudi Arabia, Egypt and other countries to pursue their own programs. Yet Oman is determined to protect its good relations with Iran, and continues to advocate dialogue, rather than confrontation, to discourage Tehran's nuclear activities. Senior Omanis advise us that bringing UN Security Council pressure against Iran may strengthen hard-line attitudes while closing the door to IAEA inspections. Nevertheless, Oman may slowly be coming around to viewing sanctions as the only recourse to halt Iran's nuclear weapons ambitions. Minister Responsible for Foreign Affairs Yusuf bin Alawi has previously urged the Iranians to adopt a more cooperative approach. Discussions with Omani bank compliance officers reveal that transactions between their institutions and Iran are infrequent.

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